The Attitude of Young Hungarian Adults to Loans

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Abstract

Society's attitude towards loans determines the maximum welfare of the given economy and society. The aim of this study is to examine the attitude of young Hungarian adults (between the ages of 18 and 25) to loans. The data sources include the Financial Literacy research, conducted by the State Audit Office of Hungary in 2013, as well as various studies on the matter and official statistics. It is found that young people obtain the information needed to make financial decisions primarily from their families. This cannot be considered as positive practice, however, the internet as a source of information may be able to balance this. The majority of students examined are uncreditworthy and their attitude towards loans – similarly to that of Hungarian society – is clearly negative. Only one fifth of students has taken advantage of the loan products developed for their specific age group. Student loans are increasingly limited to covering tuition fees which in turn leads to welfare loss because of student objectives and various education-related costs.

Keywords: credit, loan, student loan, attitude, lending policy, financial literacy

JEL Codes: D14, D60, G23, G28, I28

1. *Introduction*

One of the most significant events of the 19th century in the field of the reformation of Hungarian economic and social life was the 1830 publication of "The Credit" by István Széchenyi[1]. Széchenyi recognised that without credit, "*Hungarians do not live as well as their circumstances would allow*".

Of course, the wheel of time has rolled on since Széchenyi's era, but – if the proverb is anything to go by – "*history repeats itself, it is only the scenery that changes*". The financial crisis that erupted in 2008 made its impact felt not just through the deterioration of credits and corporate results, but also in the attitude of the population to loans.

The negative attitude towards loans, through the drop in loan demand, unavoidably leads to welfare loss. This becomes a threat to both the economy and the whole of society if the risks accompanying borrowing are rejected by those who should be the driving forces of the economy of the future, and who – given their life cycle – would have the opportunity to take on greater risks.

The goal of this study is to provide further – in-depth – information to those with an interest in financial literacy (in relation to the basic research entitled „*Survey on the Financial Literacy of Higher Education Students*" conducted jointly by the State Audit Office of Hungary, the Budapest University of Applied Sciences, the Econventio Roundtable Nonprofit Association, the University of Szeged and the Nonprofit Association of Hungarian Financial–Economic Auditors).

Within the framework of the present article, we are examining in detail the attitude of students in higher education towards loans, in order for decision makers to be able to develop programmes on the basis of results that could guide society's – and mainly young people's – attitude towards loans in the right direction.

[1] famous Hungarian statesman lived in the 19th century

2. Material and Method

When preparing this study, we relied primarily on the database containing data from the survey completed between December 2012 and February 2013 – in connection with the Financial Literacy Survey referred to in the introduction – by a total of 2,070 students participating in higher education via the www.penzugyikultura.hu website.

The questionnaire linked to the survey, and the research report containing the initial results are available at the following link in Hungarian language: http://www.asz.hu/tanulmanyok/2013/kutatasi-jelentes-felmeres-a-felsooktatasban-tanulo-fiatalok-penzugyi-kulturajarol/t353.pdf.

In order to ensure the validity of conclusions drawn, wherever possible, we compared our results with those of other research as well as official statistics (Hungarian Central Statistics Office, Hungarian Student Loan Centre). During the data processing we primarily employed descriptive statistical methods, but wherever possible, we also used cross-tab analysis. Our calculations and charts were generated with MsExcel and SPSS software.

Last but not least, our analysis also utilised the Financial Literacy Index (FLI), which provides comprehensive information on the financial knowledge of students (more information on the method can be found in the Material and Method chapter of the related financial literacy basic research).

3. Source of the Financial Knowledge of young Adults

In order to be able to understand the decisions made by young adults, it is important that we know where the information impacting their way of thinking is gathered from. We are in the fortunate position that the information sources of students have been examined by numerous Hungarian and international studies.

Based on the qualitative survey conducted by the National Bank of Hungary in 2006, the 14-17 year-old age group almost exclusively acquires its financial knowledge from family members, while the 18-30 year-old age group typically gather such information through its own experiences. In her research, Kovácsné (2013)clearly identified family – or parents to be more precise – as the primary source of financial information for the 17-18 year-old age group.

As far as international research is concerned, according to the statistics published on the website of the National Financial Educators Council (2013), – similarly to the results of Hungarian studies – close to 70% of higher education students indicated parents to be their main source of information. In the research conducted by Royer et al. (2005), 77% and 83% of secondary school age students and higher education students respectively named parents as primary sources of financial information. Finally, a recent study published in 2013 showed that 71% of secondary school age youngsters learned to save by following parental examples (EVERFI, 2013).

There are, of course, studies that came up with different results. One such research is that of the Investor Education Fund (2012) from Canada, according to which students obtain their financial knowledge primarily from the internet and school classes, or another – interestingly enough – is the quantitative section of the 2006 National Bank of Hungary research, where respondents indicated television, newspaper and magazine advertisements as their primary sources of information.

Within the framework of the present study, we accept that the primary source of information for young adults is family, or parents to be more precise.

On account of the above, during our data recording what we were interested in was how frequently young people use the various channels when in need of financial information, rather than what the primary source of their financial information is (Chart 1).

The young adults polled had the option of marking multiple answers. The results clearly show that the family's role as provider of financial information for the 18-25 year-old age group corresponds with the results of previous research, in other words, is very substantial. It is remarkable, however, that the internet is ahead of the family in terms of providing financial information. If we take into consideration the conclusion of the MNB study (2006) according to which "the appropriate parental example is missing" (which refers to the fact that bad financial examples do not disappear but are passed on from generation to generation), we can draw the positive conclusion that the internet may largely contribute to changing this bad habit inheritance.

At the same time, it is also interesting that the television and radio advertisements of financial institutions have only a slight effect on the 18-25 age group (in contrast with the quantitative 2006 MNB research, the joint MNB-GFK research in 2010 also supported our notion in terms of the adult population).

If we assess the information channels of young people according to their level of financial literacy (FLI), we get a more sophisticated picture. We classified students' Financial Literacy Index (FLI) scores into five categories – and as the value of the FLI is between 0 and 1, we set 0.2 intervals for each category (the closer the index value is to one, the better the score).

As Table 1 reveals, the more a given person places their channel of financial information on an informal foundation (relatives, friends, acquaintances), the worse their scores in terms of financial awareness. This at the same time, also means that it is not very fortunate to rely on advice dispensed by relatives (including parents), which in light of the above ("we rely heavily on family when making financial decisions") does not provide a very positive vision of the future.

4. General Attitude towards Loans among Young People

One third of young people polled in the 2006 MNB study categorically rejected loans, but loans being too risky was also a dominant view. We were curious to see how this has changed over the course of the past seven years. Chart 2shows that the attitude of young people to loans has not changed substantially, as the representatives of both sexes are trying to avoid borrowing – and on a scale of 1 to 7, they did not rate loans as good things. Opinions, however, vary whether they would take out a loan if needed. Interestingly, practically all the women polled said they would pay back the amount borrowed as soon as possible, while men afford themselves some leeway in this matter.

Examining the statements shown in Chart 2 and the FLI values scored by students per the categories seen in Table 1, we find no significant correlations, in other words, regardless of how much a given student is well-versed in financial-economic matters, their attitude towards loans is negative all the same. The situation is made worse by the fact that Béres et al. (2013) identified risk averse behaviour among the young adults examined that was independent of the level of financial knowledge.

This negative – or we could say conservative – Hungarian attitude to loans, however, is not limited to young people. Botos et al. (2012) came to a similar conclusion when examining the borrowing habits of households in the Middle Great Plain region. Those who have never taken out any loans in their lifetime was polled on the reasons for this (Table 2).

The data of Table 2 correspond almost exactly to those contained in Medgyesi's doctoral dissertation (2005) – in the 2005 survey, close to half of respondents without loans indicated a fear of excessive indebtedness and enough disposable income from other sources as reasons for not borrowing.

In his analysis, Medgyesi touches upon the fact that in order to avoid becoming indebted, people (those who can afford to) try to restrict their spending – this observation further reinforces the existence of the conservative Hungarian attitude towards loans. This may also serve as a partial explanation for the fact that based on the data of Table 2, only a few are afraid that they would not be able to repay the loan they take out.

As we have already mentioned in our introduction, without credits – and without borrowers – the growth of the economy's (and also society's) welfare falls far behind its potential level, which means that the negative attitude of the Hungarian population towards loans must be mitigated and the willingness to take risks must be encouraged to the extent corresponding to the level of financial knowledge.

Interestingly, the attitude towards loans is fundamentally different west of Hungary (particularly in English-speaking areas). The root of the problems there is that young people treat loans too carelessly and finance things from loans that they should not, in other words, they fail to perceive the actual risks (EVERFI, 2013). This is something that must paid attention to when adapting certain educating methods to Hungarian circumstances.

5. Students and Creditworthiness

The credit rating systems of banks – depending on loan type – examine multiple aspects in order to minimize loan defaults. One such aspect is the loan applicant's income.

The young adults were asked about both the size of their income and its composition. Of the 1,743 students, 1,352 provided data concerning this issue (Chart 3).

As far as the total income of respondents is concerned, this is in the range of HUF 100 million (HUF 93.96 million). Chart 3 clearly shows that though this amount is derived from multiple sources, for the most part it is made up of wages. In his doctoral dissertation, referring to a 2005 TÁRKI survey Medgyesi (2005) determines similar ratios as for the source and volume of income (51% wages, 17% parental support).

The average income level of young people is HUF 62,915, which is very low. In its publication on the risks of excessive indebtedness (2010), the Hungarian Financial Supervisory Authority (today the Central Bank of Hungary) recommends borrowers a maximum monthly loan repayment of 30% of disposable income in case of incomes below HUF 250 thousand (at the household level) for HUF-denominated loans.

30% of the average income of young people is HUF 18,874. If we accept this 30% as bank practice (which is a very optimistic scenario), this would mean students would not be creditworthy by themselves as the roughly HUF 44,000 remaining after the payment of instalments would be consumed by housing expenses (University of Debrecen, 2012).

Proving the highly limited nature of the creditworthiness of students in itself does not bring anything new to the table.If we compare what we have written here with the loan purposes indicated by students and their actual willingness to borrow, we get closer to understanding the demand of loan products available to students.

6. Willingness of Students to Take Out Loans, Purpose of Loans

In spite of the fact that the attitude of students towards borrowing is a sort of manifestation of the negative attitude of Hungarian society, there are of course people who do take advantage of the opportunities provided by credits. The objectives of young people between the ages of 18 and 25 which they would be willing to finance through loans are shown in Chart 4.

In the research report that the present study relies on, Béres et al. (2013) conclude that the four main loan purposes that have prompted students to take out loans are in order as follows: (1) studies, (2) electrical goods, (3) house or apartment and finally (4) car. In their analysis, however, they do not elaborate on the percentage of polled students this concerns.

As Table 3. shows, close to three quarters of students have not taken out any loans yet. 74% of those who have taken out a loan only realised a single loan purpose. Chart 4 already indicates the popularity of the various loan purposes, however, we arrive at information that is easier to interpret if we examine loan purposes and the ratio of borrowers choosing these loan purposes (Table 4)

Table 4 clearly shows that the most frequently sought and selected loan purpose was related to studies. If we take into account the fact that education today would be impossible without the adequate IT background, we can consider some electrical goods to also be part of loans related to studies.

All in all, we can say the willingness to take out loans is very low among young adults, and the majority of loans taken out are related to further studies. It should be noted, however, that – also taking into account loan purposes students have not realised – students (if they could) would give priority to consumption much more frequently than they currently do.

7. Student Loan

Financing studies from loans is no new thing, neither in terms of theory, nor practice – and is dealt with for instance, amongst others, by Friedman in his 1962 book –, but this did not appear in Hungarian practice until 2001 (Berlinger, 2002). It is a declared and stated goal of lending to students in Hungary to provide a chance for all young Hungarians to participate in higher education.

Taking into account that the student loan plays a priority role in the loan purpose system of the 18-25 year-old age group, in the following section we will focus on the attitude of students to the student loan.

According to the 2012 statistics of the Hungarian Student Loan Centre, (at a national level) close to 20% (18.8%) of students took advantage of the student loan. Taking this, as well as the above into consideration, the real question is what are the main driving forces for and against taking out the student loan (Table 5).

In the 2005 survey referred to earlier, the primary aspect considered when taking out the student loan was financial independence, and only a quarter of respondents said they would not have been able to finance their higher education studies without it.

The fact that Medgyesi (2005) identified the “parentaladvice” category as one of the driving forces for not taking out the student loan fits well with what we wrote at the beginning of the study, namely that the primary information base for financial issues for this particular age group are the parents.

The 2013 survey shows a different picture altogether as far as the utilisation of the student loan is concerned: in contrast with previously observed tendencies, an increasingly larger ratio of students is using the student loan to pay for tuition instead of consumer goods (Table 6). This was the cumulative result of a number of factors: firstly, the number of state-financed students dropped considerably since 2005; secondly, the amount of tuition fees increased; and finally, the loan arrangement known as “Student Loan 2” was launched in 2012, which students were only allowed to spend on tuition fees.

We also asked students who took out a student loan whether they felt it would be easy to repay this loan taken out to cover their studies (Chart 5).

Chart 5 reveals that students are positive in looking to the future in that only a negligible minority (4.3%) feels they will not be able to repay the student loan debt. This picture, however, is further nuanced by the fact that only 8.3% of respondents said they would be able to repay their student loan without any difficulties – the data culled by Veroszta (2013) and Pájer-Keresztes (2013) from the graduate career tracking system support the optimistic approach.

The contents of Chart 5, the loan purposes of students and the findings of the 2005 survey together highlight the fact that the target audience of the student loan does not just need to be able to pay tuition fees from the loan, but should also be able to finance some part of everyday consumption. This is particularly true for students in the earlier years of their studies, as those with regular income tend to be older students.

Finally, we also examined satisfaction with student loans. Students were asked to rate their loan on a scale of 1 to 10. The vertical dashed line in Chart 6 indicates that we qualified respondents with 4 or lower rating to be dissatisfied, and respondents with five or higher rating to be satisfied.

The survey showed that 29.14% of students was not satisfied with their student loan. We have summed up the reasons for this inTable 7.

The table above reveals that dissatisfaction with the student loan is primarily the result of social attitude, but there is a considerable number of students who for some reason did not entirely and accurately remember the terms and conditions of their loan agreement.

8. Conclusions

Our study examined the borrowing habits of the 18-25 year-old age group. We concluded that the majority of the age group reviewed rely on parents for their primary source of information prior to making financial decisions. This implies a dual risk: on the one hand, children inherit parents’ bad habits, which in many cases do not comply with the criteria of efficient financial self-provision, and on the other, given their life situations, parents are less willing to take risks, which means this risk averse behaviour is inherited on to the next generation.

It is a positive development that students qualified as financially aware and knowledgeable now also indicate the internet to be a source of financial information, therefore, with the help of appropriate on-line contents, the bad financial practices inherited from “father to son” may be interrupted.

The attitude of the young people examined towards loans is negative regardless of their level of financial knowledge, and the reason behind this is the fear of indebtedness, and the fact that they strive to find other avenues to ensure the financial resources their lifestyles require.

This general negative attitude against loans is typical of the whole of Hungarian society (especially on account of the social shock caused by foreign currency loans).

In our view, however, in order to reduce the welfare loss, mentioned in our introduction, arising out of the “elimination of loans”, the various financial literacy development campaigns should not just be aimed at younger generations, but older ones as well2, as they are the generations that are truly creditworthy and they are the ones that have the greatest impact on young people in terms of financial decisions. This could automatically be accompanied by an increase in the willingness to take risks.

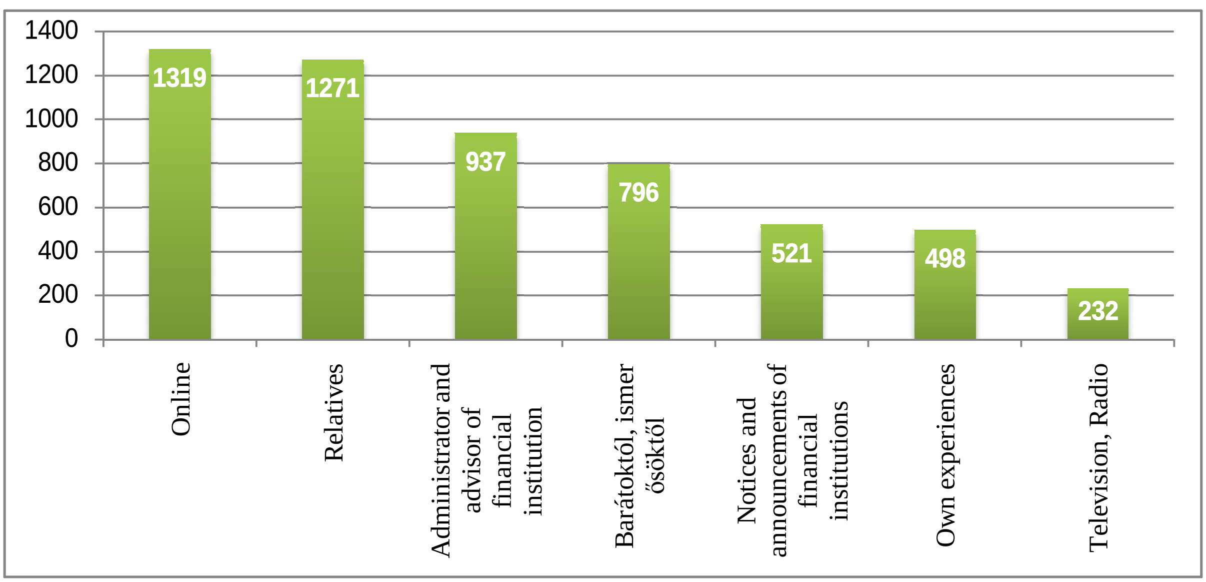
The negative attitude of young people against loans is also felt in the actual borrowing of the age group – close to three quarters of students have never taken out a loan –, which is not necessarily a problem in itself as the majority of students are not creditworthy by themselves.

Only about one fifth of students are using the loan products developed for their specific age group. While in 2005, most students viewed the student loan as an important element of financial independence, in other words its function was not the payment of tuition fees; in 2013, the majority (close to 56% of respondents) exclusively finances their studies from the loan. On the one hand, this trend is commendable as it gets us closer to the objective declared in the government decree of 2001 on the student loan, however, we must also take into account that students’ education-related costs do not end with the payment of tuition fees, and in this respect, the trend is not necessarily a good one, especially if we also take the consumption lost into consideration.

The majority of students taking advantage of the student loan felt that they would be able to repay their education-related loan (which by the way 70% of students are satisfied with) once they have completed their higher education studies. The dissatisfaction of the remaining 30% stems mainly from the negative social attitude against loans (the general fear of not being able to repay the debt), as well as the fact that they had incorrect recollections of their loan terms.

As a final conclusion, we return to István Széchenyi’s thoughts, which state that without credit, “Hungarians do not live as well as their circumstances would allow”, which is why reasonable risk-taking (in this case realised by the social attitude to borrowing), corresponding to the given level of financial knowledge, must be encouraged in order to increase the welfare of Hungarian society.

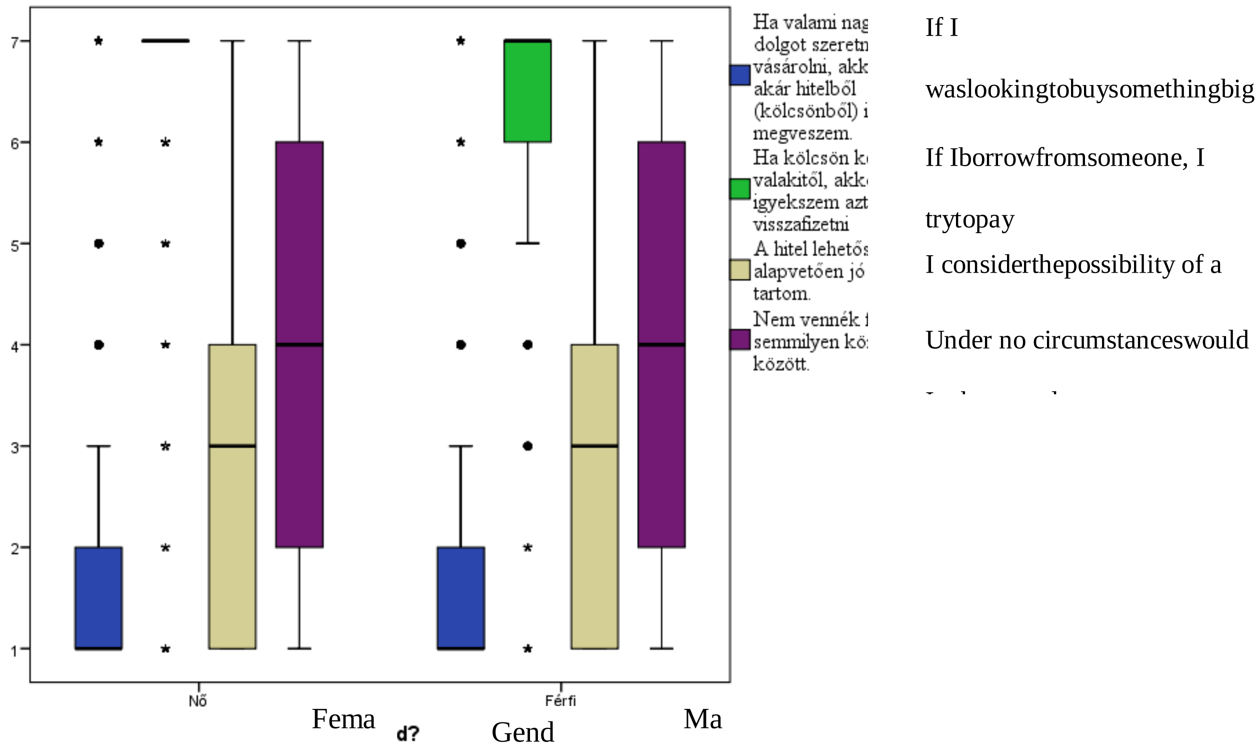
Chart1: When Faced with a Financial-Economic Decision, where do you Gather your



Source: own editing (n=1743)

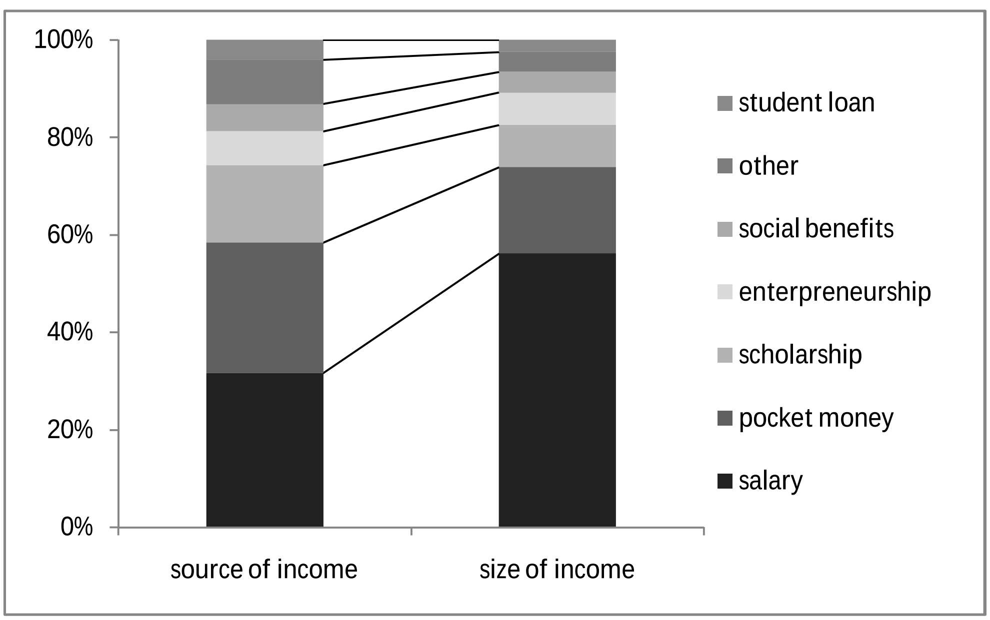
[2] At the moment, most financial literacy development programmes are aimed at secondary school students.

Chart 2: How True are the Following Statements in your Case?
(1-not true at all, 7-completely true)



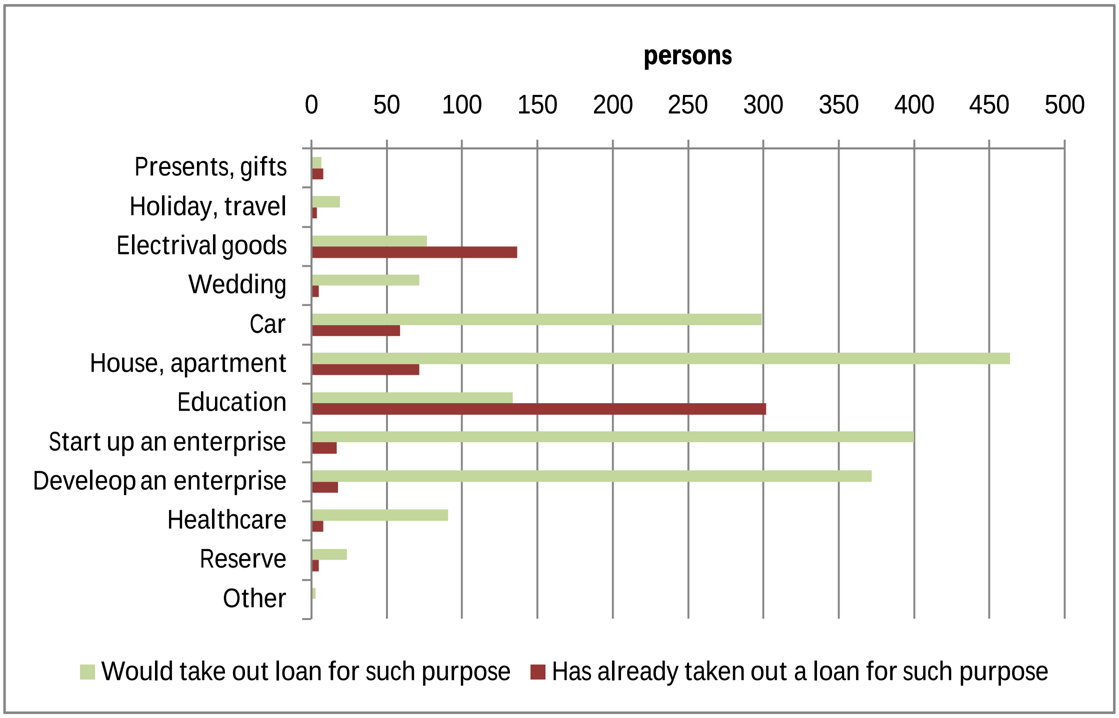
Source: own editing (n=1743)

Chart 3: Source and Size of the Income of Young Adults



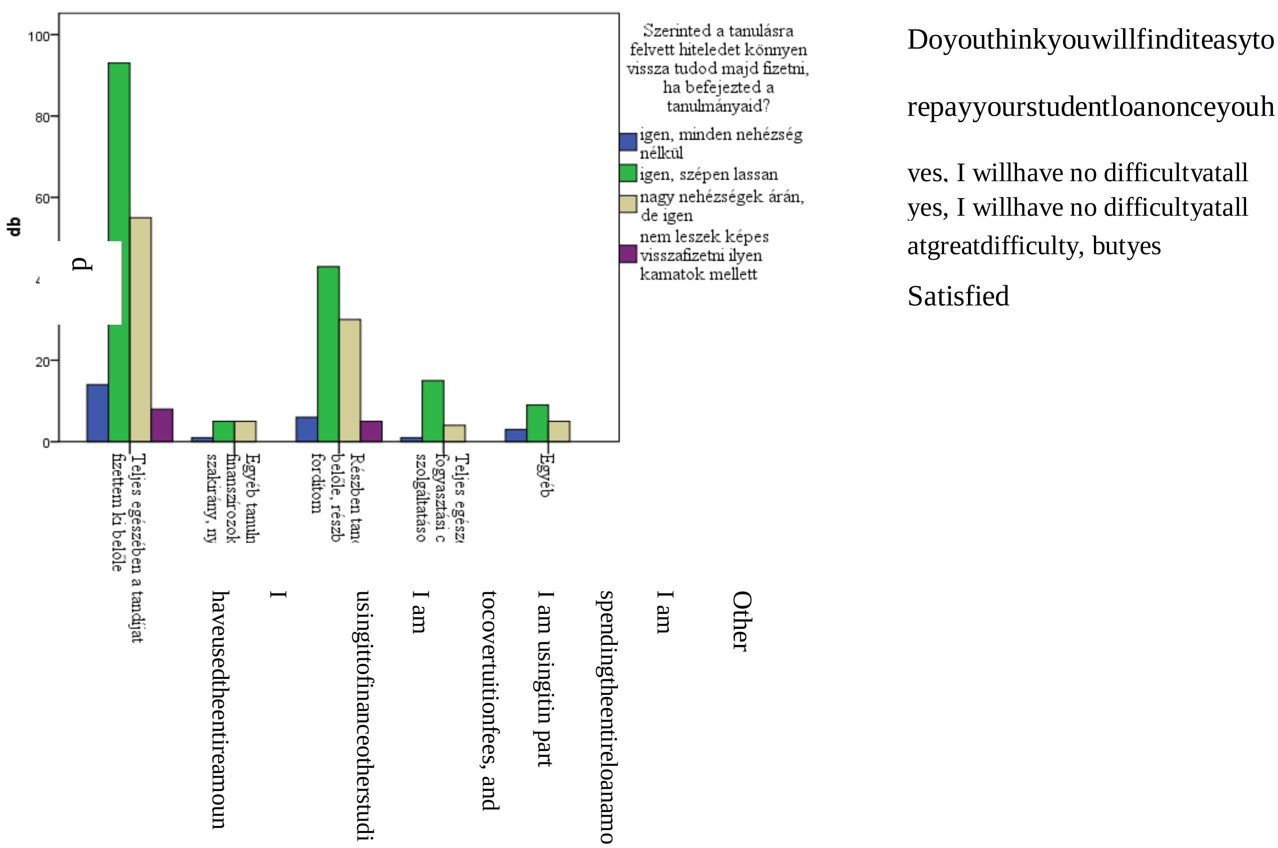
Source: own editing (n=1352)

Chart 4: Purpose of Students' Loans



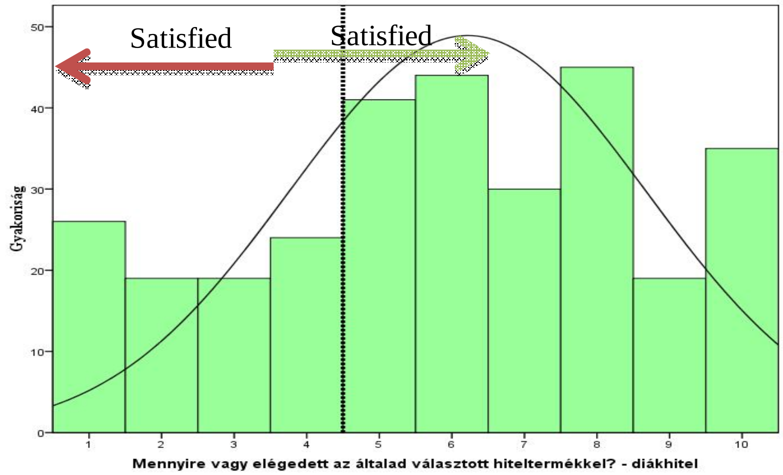
Source: Béres, et al. (2013)

Chart5: Repayability of the Student loan According to Students



Source: own editing (n=302)

Chart 6: Satisfaction of Students with the Student Loan



Source: own editing (n=302)

Table 1: When Faced with a Financial-Economic Decision, Where do you Acquire your Information from? – According to FLI Values Achieved

FLI category	Online	Satisfied	advisor	acquaintances	announcements of financial institutions	experiences	Television, radio
0-0.2	20%	24%	16%	20%	8%	8%	4%
0.21-0.4	20%	29%	14%	18%	7%	6%	5%
0.41-0.6	23%	25%	17%	14%	10%	8%	4%
0.61-0.8	25%	18%	18%	14%	10%	11%	4%
0.81-1	27%	16%	18%	12%	11%	12%	5%

Source: own editing

Table 2: Reasons why the 18-25 Year-Old Age Group does not Take out Loans

What is the main reason for not taking out a loan to date (including the student loan)?	
there was no need, I acquire the funds needed to finance my lifestyle from elsewhere	45.24%
I have no desire to become indebted	42.86%
I am afraid I would not be able to pay it back	6.53%
I have only heard bad things about loans	2.61%
If I do take out a loan, I will have a difficult time getting another type of loan down the line	1.69%
I would not be granted a loan	1.08%

Source: own editing (n=1302)

Table 3: Willingness of Students between the Ages of 18 and 25 to Take out Loans (per Loan Purposes Realised)

Loans taken out		
	persons	%
Has not taken out any loans	1301	74.6
1 loan purpose	327	18.8
2 loan purposes	68	3.9
3 loan purposes	24	1.4
4 loan purposes	15	0.9
5 loan purposes	7	0.4
6 loan purposes	1	0.1
Total	1743	100.0

Source: own editing

Table 4: Distribution of Loan Purposes Realised by Students

Loan purpose	Ratio of borrowers selecting given loan purpose
Studies (student loan)	68.33%
Electrical goods	31.00%
House, apartment	16.29%
Car	13.35%
Develop an enterprise	4.07%
Start up an enterprise	3.85%
Presents, gifts	1.81%
Healthcare services	1.81%
Wedding	1.13%
Security reserve	1.13%
Holidays, travels, festivals	0.90%
Other	0.23%

Note: respondents were allowed to select multiple loan purposes and as a result, the sum of the ratios of students selecting the loan purposes exceeds 100%.
Source: own editing

Table 5: Drivers of Selecting Student Loans

Drivers	
in favour of taking out the student loan	**against taking out the student loan**
financial independence	indebtedness
have to work less	disposable income from other sources (work, parents, scholarship)
allows student to choose the institution he/she likes best	limiting expenditures deemed unnecessary
tuition fee	unfavourable loan terms
	parental advice

Source: Medgyesi, 2005

Table 6: Student Loans Taken out According to Utilisation

What are you spending the loan, taken out for your studies, on?	
I have used the entire amount to cover tuition fees	56.29%
I am using it in part to cover tuition fees, and partly to finance my consumption	27.81%
I am spending the entire loan amount on consumer goods and services	6.62%
I am using it to finance other studies (secondary specialisation, language, etc.)	3.64%
Other	5.63%

Source: own editing (n=302)

Table 7: Reasons for Dissatisfaction with the Student Loan

What is the main reason for your dissatisfaction with your loan?	
many have failed with their loan repayment, and I am afraid the same thing will happen to me	39%
the interest and/or instalment is not (is greater) than what I expected	34%
some costs were incurred that I was not expecting or there was no mention of beforehand	7%
incorrect administration	5%
other	15%

Source: own editing (n=100)

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